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Item 2 of the provisional agenda

# REPORT OF THE PROGRAMME AND BUDGET COMMITTEE ON THE WORK OF ITS EIGHTEENTH SESSION

(24-25 September 2002)

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## Introduction

1. The Programme and Budget Committee held its eighteenth session at UNIDO Headquarters, Vienna International Centre, from 24 to 25 September 2002. All 27 Members of the Committee participated in the session:

Angola, Argentina, Austria, China, Côte d'Ivoire, Democratic People's Republic of Korea, Egypt, Finland, France, Germany, Greece, Hungary, Italy, Japan, Mexico, Nigeria, Pakistan, Peru, Poland, Republic of Korea, Russian Federation, Saudi Arabia, Sudan, Tunisia, Turkey, United Kingdom of Great Britain and Northern Ireland and Venezuela.

2. The following 53 Members of UNIDO also attended the session:

Afghanistan, Algeria, Azerbaijan, Belarus, Belgium, Bolivia, Bulgaria, Cameroon, Cape Verde, Chile, Colombia, Croatia, Cuba, Czech Republic, Denmark, Ecuador, Eritrea, Ethiopia, Guatemala, India, Indonesia, Iran (Islamic Republic of), Iraq, Ireland, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Luxembourg, Malaysia, Morocco, Namibia, Netherlands, New Zealand, Oman, Panama, Philippines, Portugal, Romania, Slovakia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Ukraine, Uruguay, Viet Nam, Yemen, Yugoslavia and Zimbabwe.

3. The following organizations were represented:

United Nations Office at Vienna, International Atomic Energy Agency, International Institute of Refrigeration.

4. In accordance with rule 17 of its rules of procedure, the Committee elected by acclamation C. Moreno (Italy) as Chairman; E. Koffi (Côte d'Ivoire), A. S. Naqvi (Pakistan), and G. Berdennikov (Russian Federation) as Vice-Chairmen; and L. Rodríguez Chacón (Peru) as Rapporteur.

5. The agenda for the eighteenth session as adopted by the Committee is contained in document PBC.18/1. Following the adoption of the agenda, the Director-General made an introductory statement that was duly taken into account by the Committee in the consideration of the relevant agenda items.

6. The report of the Programme and Budget Committee is submitted to the Industrial Development Board in accordance with Article 10.4(d) of the Constitution.

7. The report contains the conclusions reached by the Committee. Annex II to the present report contains a list of documents submitted to the Committee at its current session.

8. The following conclusions of the Committee contain recommendations that call for action by the Board at its twenty-sixth session or are of relevance to the work of that session:

| Conclusion | Subject |
|---|---|
| 2002/2 | Report of the External Auditor, financial performance report and programme performance report for the biennium 2000-2001 |
| 2002/3 | Financial situation of UNIDO |
| 2002/4 | Transition to a single currency system |
| 2002/5 | Mobilization of financial resources for UNIDO programmes |

## I. ORGANIZATIONAL MATTERS

9. On 24 September, the Committee considered a proposal by the Chairman to optimize the *utilization of available conference-servicing resources* and adopted the following conclusion:

**Conclusion 2002/1**

The Committee, with the aim of utilizing the available conference-servicing resources to the maximum extent possible, decided to suspend with immediate effect rule 24 of its rules of procedure relating to the quorum, for the meetings of its eighteenth session only, provided no substantive decisions were taken at those meetings.

10. The Committee also decided to set up informal in-session consultations with the aim of facilitating the drafting of conclusions and entrusted E. Koffi (Côte d'Ivoire) (Vice-Chairman) to chair those consultations.

## II. REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 2000-2001 (item 3)

11. On 24 September, the Committee considered the report of the External Auditor on the accounts of the United Nations Industrial Development Organization

and of the Industrial Development Fund for the financial period 2000-2001 ended 31 December 2001 (PBC.18/3), the comments of the Director-General on the report of the External Auditor (PBC.18/4), the financial performance report submitted by the Director-General for the biennium 2000-2001 (PBC.18/6), and the Annual Report of UNIDO 2001 (PBC.18/2 and Add.1).

12. On 24 September, after consideration of a draft conclusion on the *Report of the External Auditor, financial performance report and programme performance report for the biennium 2000-2001* submitted by the Chairman (PBC.18/L.2), the Committee adopted the following conclusion:

**Conclusion 2002/2**

The Committee recommended to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the External Auditor on the accounts of the United Nations Industrial Development Organization and of the Industrial Development Fund and trust funds for the financial period 2000-2001 ended 31 December 2001 (PBC.18/3-IDB.26/2);

"(b) Also takes note of the Director-General's comments on the report of the External Auditor (PBC.18/4-IDB.26/3);

"(c) Welcomes the positive assessment made by the External Auditor, which, inter alia, states that the financial statements reflect properly the recorded financial transactions for the biennium ended 31 December 2001 and present fairly, in all material respects, the Organization's financial position as at 31 December 2001 and that the Organization has achieved relevance, financial stability, improved technical cooperation and delivery and quality of services through more focused activities during the last four years (PBC.18/3-IDB.26/2, annex I and para. 136);

"(d) While acknowledging that the External Auditor has not found any specific weakness or violation of internal controls, misconduct or undue behaviour in the field, takes note of the concerns expressed by the Auditor that the Internal Oversight Group is not in a position to perform intensive as well as extensive systematic reviews as required (paras. 96, 97 and 129 of the report);

"(e) Bears in mind that the Joint Inspection Unit recommended in its report JIU/REP/98/2 that the legislative organs request the executive heads to submit a consolidated annual summary report, as distinct from individual reports, on internal oversight activities;

"(f) With regard to the External Auditor's recommendations pertaining to the internal oversight, requests the Director-General:

(i) "To inform the Industrial Development Board of major internal oversight activities on the weaknesses of systems, procedures and related internal controls as called for under financial rule 109.39, including issues addressed, accomplishments achieved, a summary of recommendations made and status of action taken, through the Annual Report of the Director-General on the activities of the Organization;

(ii) "To inform the External Auditor as "cases of presumptive fraud" of any fraud-oriented investigation undertaken by the Internal Oversight Group;

(iii) "To strengthen the internal oversight function, in a systematic manner, inter alia, through an improved staffing profile with as much independence as practicable, in order to ensure pro-active reviews of all operations of the Organization to assess compliance, economy and efficiency and effectiveness of systems, procedures and related internal controls, including the engagement of experts, procurement of equipment and subcontracting under technical cooperation activities;

(iv) "To report to the Board at its twenty-seventh session on the implementation of the above request pertaining to the internal oversight;

"(g) With regard to other important aspects of the External Auditor's report, further requests the Director-General to report to the Board at its twenty-seventh session in more detail on efforts to meet the recommendations of the External Auditor, in particular:

"(i) On measures taken to increase fraud awareness and to combat fraud (paras. 92-99 of the report);

"(ii) With regard to UNIDO's offices at New York and Geneva (para. 128), also in response to the need for closer cooperation with the European Commission and the EuropeAid Co-operation Office in Brussels;

"(h) Requests the External Auditor:

"(i) To include in future reports a table with the key recommendations, in order to increase the clarity and action-oriented nature of the reports;

"(ii) To submit each year in time for the appropriate Programme and Budget Committee session a short interim report on the activities carried out by the External Auditor and any recommendations resulting therefrom, bearing in mind that the External Auditor can only certify the accounts at the end of the biennium;

"(i) Requests the Director-General:

"(i) To submit proposals to the Programme and Budget Committee at its nineteenth session to deal with the problem of UNIDO's After-Service Health Insurance liabilities in the event of a United Nations-wide solution not being forthcoming;

"(ii) To differentiate in future financial performance reports between unutilized balances that are a result of cost-saving measures undertaken, lack of resources, delivery problems, and the like;

"(iii) To complete the table mentioned in paragraph h (i) above by explaining the response to these recommendations by the time of the following session of the Programme and Budget Committee."

## III. FINANCIAL SITUATION OF UNIDO (item 4); FINANCIAL REGULATIONS (item 5); TRANSITION TO A SINGLE CURRENCY SYSTEM (item 6)

13. On 24 September, the Committee considered under item 4, a report by the Director-General on the financial situation of UNIDO (PBC.18/10); under item 5 it took note of the entry contained in the annotated agenda (PBC.18/1/Add.1) that no further meetings of the Intersessional working group on proposed amendments to the financial regulations were scheduled; and under item 6 it considered a note by the Secretariat on the transition to a single currency system (PBC.18/5).

14. On 25 September, after consideration of a draft conclusion on the *financial situation of UNIDO*, submitted by the Chairman (PBC.18/L.3) the Committee adopted the following conclusion:

**Conclusion 2002/3**

The Committee recommended to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information provided in document IDB.26/9-PBC.18/10;

"(b) Also takes note of the information contained in chapter VI and annex II of that document on the implementation of General Conference decision GC.9/Dec.10;

"(c) Urges those Member States and former Member States that have not yet paid their assessed contributions, including advances to the Working Capital Fund and prior years' arrears, to do so without delay;

"(d) Requests the Director-General to pursue his efforts and contacts with Member States to effect the collection of arrears;

"(e) Requests the Secretariat to ascertain from other organizations in the United Nations system information as to the incentives and disincentives in place with regard to the payment of assessed contributions as well as to the linking of such incentives and disincentives to services provided and to report thereon to the Committee at its nineteenth session;

"(f) Recommends to the General Conference at its tenth session to allow the Secretariat to use for integrated programmes each country's share and amount of the unencumbered balances of appropriations, income from new Member States and interest income in excess of budgetary estimates, as specified in decision GC.9/Dec.10, if no response has been received by 31 December 2003 from the concerned States on the use of those funds amounting to €840,818, as contained in annex II to document PBC.18/10-IDB.26/9;

"(g) Requests the Director-General to send a final reminder to those Member States which have not yet replied, informing them of the present decision."

15. On 25 September, after consideration of a draft conclusion on the *transition to a single currency system*, submitted by the Chairman (PBC.18/L.4), the Committee adopted the following conclusion:

**Conclusion 2002/4**

The Committee recommended to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information provided in document IDB.26/4-PBC.18/5 on the transition to a single currency system, and in particular of the problems being faced;

"(b) Notes with satisfaction that the Director-General has begun to take steps towards the full implementation of the single currency system based on the euro;

"(c) Requests the Director-General to find solutions to the problems in implementation identified in PBC.18/5 and to keep Member States regularly informed of further developments."

## IV. IMPLEMENTATION OF MEDIUM-TERM PROGRAMME FRAMEWORK, 2002-2005, INCLUDING FIELD REPRESENTATION AND TECHNOLOGY FORESIGHT (item 7); MOBILIZATION OF FINANCIAL RESOURCES (item 8); MEDIUM-TERM PROGRAMME FRAMEWORK, 2004-2007 (item 9)

16. On 24 and 25 September, the Committee considered under item 7, a report by the Director-General on the implementation of the medium-term programme framework, 2002-2005 (PBC.18/8); under item 8 it considered a report by the Director-General on mobilization of financial resources for UNIDO programmes (PBC.18/7), information on financial resources—funds mobilization, contained in the Annual Report of UNIDO 2001 (PBC.18/2, Chap. V.A), information on project approvals under voluntary contributions, contained in the Annual Report of UNIDO 2001 (PBC.18/2, Appendix B) and a conference room paper on projects approved under the Industrial Development Fund, trust funds and other voluntary contribution in 2001 (PBC.18/CRP.1); and under item 9 it considered proposals of the Director-General on the medium-term programme framework, 2004-2007 (PBC.18/9).

17. At the suggestion of the Chairman, the Committee took note of the information provided by the Director-General on agenda item 7.

18. On 25 September, after consideration of a draft conclusion on *mobilization of financial resources for UNIDO programmes* submitted by the Chairman (PBC.18/L.5), the Committee adopted the following conclusion:

**Conclusion 2002/5**

The Committee recommended to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information contained in document IDB.26/6-PBC.18/7;

"(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 2003 and 2004 in accordance with the priorities defined in the medium-term programme framework, 2002-2005 (GC.9/Res.2);

"(c) Urges all Member States to pay their assessed contributions to the regular budget in full and on time, so that UNIDO can develop and implement its programmes in an efficient manner;

"(d) Encourages Member States and other financial sources to increase their voluntary contributions to UNIDO;

"(e) Also encourages the donor community and other sources of financing to consider contributing programmable funds, specifically to enable UNIDO to implement the integrated programmes, as well as to support an efficient development and eventual implementation of new initiatives within the mandate given to the Director-General in the medium-term programme framework 2002-2005;

"(f) Encourages Governments of recipient countries to play a more active role in assisting UNIDO within their means to mobilize funds for jointly developed integrated programmes and other high-priority activities, and specifically to assist in identifying and accessing funds available at the country level, including cost-sharing arrangements, and funds from bilateral donors,

UNDP, and from the World Bank and other development finance institutions;

"(g) Requests the Director-General in due time to enter into dialogue with all Member States on new initiatives within the framework and priorities of the medium-term programme framework 2002-2005, including their financial implications, and promote them in the international development context especially in international conferences and other forms of dialogue."

19. At the suggestion of the Chairman, the Committee took note of the information provided by the Director-General on agenda item 9.

## V. DATE OF THE NINETEENTH SESSION (item 10)

20. On 25 September, the Committee heard a statement by the Chief of the Governing Bodies on the date of the nineteenth session.

21. On 25 September, after consideration of a draft conclusion on the *date of the nineteenth session*, submitted by the Chairman (PBC.18/L.6), the Committee adopted the following conclusion:

**Conclusion 2002/6**

"The Programme and Budget Committee decides to hold its nineteenth session from 28 to 30 April 2003."

## VI. ADOPTION OF THE REPORT (item 11) AND CLOSURE OF THE EIGHTEENTH SESSION

22. On 25 September, the Committee adopted the draft report of its eighteenth session (PBC.18/L.1) on the understanding that the Rapporteur would be entrusted with the task of finalizing the report.

23. The Committee closed its eighteenth session at 4 p.m. on 25 September 2002.

## Annex I

## STATEMENT BY DELEGATIONS

1. The present annex contains a statement made in connection with the adoption of conclusion 2002/3 of the Programme and Budget Committee; this statement has been included at the request of the delegations concerned and agreed to by the Chairman.

**Agenda item 3**

2. The observer from Denmark (speaking on behalf of the European Union) said that, with regard to paragraph (f)(iii) of the draft decision on item 3, in the view of the European Union, the reference to the staff in line 2 in no way implied a criticism of the current staff.

## Annex II

## LIST OF DOCUMENTS SUBMITTED TO THE EIGHTEENTH SESSION

| *Symbol* | *Agenda item* | *Title* |
|---|---|---|
| PBC.18/1 | 2 | Provisional agenda |
| PBC.18/1/Add.1 | 2 | Annotated provisional agenda |
| PBC.18/2-IDB.25/2 | 3 | Annual Report 2001 |
| PBC.18/2/Add.1-IDB.25/2/Add.1 | 3 | Annual Report 2001. Programme performance report. List of technical cooperation activities |
| PBC.18/3-IDB.26/2 | 3 | Report of the External Auditor on the accounts of the United Nations Industrial Development Organization and of the Industrial Development Fund for the fiscal period 2000-2001 ended 31 December 2001 |
| PBC.18/4-IDB.26/3 | 3 | Comments of the Director-General on the report of the External Auditor |
| PBC.18/5-IDB.26/4 | 6 | Transition to a single currency system. Note by the Secretariat |
| PBC.18/6-IDB.26/5 | 3 | Financial performance report for the biennium 2000-2001. Submitted by the Director-General |
| PBC.18/7-IDB.26/6 | 8 | Mobilization of financial resources for UNIDO programmes. Report by the Director-General |
| PBC.18/8-IDB.26/7 | 7 | Implementation of medium-term programme framework, 2002-2005. Report by the Director-General |
| PBC.18/9-IDB.26/8 | 9 | Medium-term programme framework, 2004-2007. Proposals of the Director-General |
| PBC.18/10-IDB.26/9 | 4 | Financial situation of UNIDO. Report by the Director-General |
| | | **Conference room papers** |
| PBC.18/CRP.1 | 8 | Projects approved under the Industrial Development Fund, trust funds and other voluntary contributions in 2001. Prepared by the Secretariat |
| PBC.18/CRP.2 | 2 | List of documents |
| PBC.18/CRP.3 | 4 | Financial situation of UNIDO |
| PBC.18/CRP.4 | 6 | New initiatives |